



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

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October 8, 2015

Rhonda Hamm-Niebruegge, Director of Airports
Lambert–St. Louis International Airport
P.O. Box 10212
St. Louis, MO 63145

RE: Professional Service Agreement Review, PSA 1099 (Project #2015-APC01)

Dear Ms. Hamm-Niebruegge:

Internal Audit has completed the contract compliance review of the Airport professional service agreement with Vic Thompson Company for the drawings and specifications for the Checked Baggage In-Line Screening System (CBISS) at Lambert – St. Louis International Airport. Enclosed is Report covering the period June 22, 2010 through March 31, 2015. A description of the scope of our work is included in the report.

Fieldwork was completed on September 24, 2015. Management responses to the observations and recommendations noted in the report were received on September 30, 2015 and have been incorporated in the report.

This review was made under the authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3490.

Sincerely,

Mohammad H. Adil, CPA, CGMA
Internal Audit Supervisor

Enclosure:

CC: Richard T. Bradley, PE, President, Board of Public Service
Gerald Beckmann, Deputy Director, Airport Planning and Development
Antonio Strong, CPA, Deputy Director, Airport Finance and Accounting
James Fox, CPA, Auditor, Airport Finance and Accounting





CITY OF ST. LOUIS

LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT

VIC THOMPSON COMPANY

**PROFESSIONAL SERVICE AGREEMENT REVIEW
(PSA 1099)**

JUNE 22, 2010 THROUGH MARCH 31, 2015

PROJECT #2015-APC01

DATE ISSUED: OCTOBER 8, 2015

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
LAMBERT – ST. LOUIS INTERNATIONAL AIRPORT
VIC THOMPSON COMPANY
PROFESSIONAL SERVICE AGREEMENT REVIEW (PSA 1099)
JUNE 22, 2010 THROUGH MARCH 31, 2015**

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PROFESSIONAL SERVICE AGREEMENT REVIEW (PSA 1099)
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SUMMARY

Background

A professional service agreement (the Agreement) was awarded to Vic Thompson Company (the Consultant) on June 22, 2010, and approved by the City through the Board of Public Service and Airport Director. The purpose of the Agreement was to furnish drawings and specifications for the Checked Baggage In-Line Screening System (CBISS) at Lambert – St. Louis International Airport. This Agreement was funded 90% by the Transportation Security Administration (TSA) through Grant HSTSO-10-H-REC130, and 10% by the City of St. Louis, Airport Development Fund and 2009 Bond Issuance (local portion).

The original Agreement amount was \$3,400,000 which was subsequently increased by \$1,053,031 in change orders for a total agreement amount of \$4,353,031. The total payment under the Agreement amounted to \$4,453,031.

Purpose

The purpose of our review was to determine if the Consultant and subconsultants complied with the terms, conditions and various provisions of the Agreement.

Scope and Methodology

Inquiries were made and tests were performed regarding the Consultants and subconsultants compliance with the Agreement. The scope of the review was June 22, 2010 through March 31, 2015

Conclusion

The Consultant and subconsultants did not fully comply with the terms, conditions, and provisions of the Agreement.

Current Observations

We noted the following observations and opportunities for improvement:

1. Non-Compliance with Federal Acquisition Regulations (FAR) Part 31
2. G&A Overcharges By Consultant (\$25,037)
3. Direct Labor Costs Overcharges By Consultant (\$132,592)
4. G&A and SRE Overcharges By Subconsultants (\$135,135)
5. Non Compliance with Local Design Codes and Regulations

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SUMMARY

Each of these observations is discussed in more detail in the *Detailed Observations and Recommendations* section of this report.

Management Response

An exit conference was conducted with the Airport on September 9, 2015. In attendance from the Airport were:

- Deputy Director, Airport Finance and Administration
- Deputy Director, Airport Planning and Development
- Building Construction Supervisor, Airport Building/Roadways Projects
- Auditor, Airport Finance and Administration

Consultant and subconsultants were represented by:

- President, Vic Thompson Company
- Accounting Manager, Vic Thompson Company
- Project Manager, Vic Thompson Company
- Project person, Faith Group, LLC
- Chief Financial Officer, Kennedy and Associates
- Accounting Manager, Kennedy and Associates
- Senior Project Accountant, Epstein Global
- Project Person, Martinez Inc.

Internal Audit was represented by:

- Internal Audit Supervisor
- Internal Auditor
- Internal Audit Advisor

The report observations and recommendations were discussed in detail at the exit conference.

The management of the Airport, Consultant and subconsultants subsequently provided written responses to the internal audit on September 30, 2015, which have been incorporated in this report.

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

1. Non-Compliance with Federal Acquisition Regulations (FAR) Part 31

The Consultant and sub-consultants did not determine the project G&A and SRE rates in accordance with FAR, Part 31. In addition, in some instances the cost components of their G&A and SRE rates were not based on the underlying accounting records. This resulted in G&A and SRE overcharges (see observations 2 and 4 below).

Article II of the Agreement defines G&A as those general office operating expenses and administrative costs, which are necessary to the proper performance of the work but which cannot be effectively allocated to the project.

Recommendation

Internal Audit recommends that the Consultant and subconsultants establish a system of internal controls to ensure compliance with FAR Part 31 when determining G&A and SRE rates under the contract.

Consultant Response

We understand the FAR Part 31 with respect to determining G&A and SRE rates and have made appropriate adjustments in our calculations.

Subconsultant Response

Epstein Global

Epstein and Sons, Inc. did not respond to the observation.

Kennedy Associates, Inc.

We will further review Part 31 related to developing G&A and SRE rates to make sure that we understand and implement the guidelines for all future contracts.

Faith Group, LLC

We shall adjust our calculations of SRE rates to FAR, Part 31.

Martinez Geospatial, Inc.

We internally calculate overhead rates according to the FAR on an annual basis. We did not break our internally calculated rates into categories of G&A and SRE. In the future, we will continue to strive for a better understanding and implementation of the FAR overhead rate guidelines.

Management Response

Airport Engineering concurs with Internal Audit's recommendation.

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DETAILED OBSERVATIONS AND RCOMMENDATIONS

2. G&A Overcharges by Consultant (\$25,037))

The Consultant's billed G&A rates for the review period were neither audited by an outside audit firm nor based on the allowable G&A recorded in the accounting records. We recalculated the G&A rates based on the G&A recorded in the Consultant's accounting records and in accordance with the requirements of FAR, Part 31. The variance between the billed and the recalculated G&A rates resulted in overcharges to the City of \$25,037 as follows:

| | |
|----------------------------|------------------------|
| Billed G&A | \$758,176 |
| Less: Re-calculated G&A | (\$733,139) |
| G&A overcharges | <u>\$25,037</u> |

Recommendation

Internal Audit recommends that:

- The Consultant establish a system of internal controls to ensure compliance with the requirements of Part 31 of FAR Part 31 and the Agreement when calculating the G&A rate.
- The Airport Authority pursue cost recovery of \$25,037, for G&A overcharges.

Consultant Response

We understand and concur with the audit results and have implemented accounting procedures to ensure compliance with FAR Part 31 requirements when calculating G&A rate.

Management Response

Airport Engineering concurs with Internal Audit's recommendations.

3. Direct Labor Costs Overcharges By Consultant (\$132,592)

The Consultant billed hourly labor rates were higher than the actual hourly rates based on its accounting records. The differences between the billed and the actual hourly labor rates resulted in the labor cost overcharges of \$132,592 as follows:

| | |
|--|-------------------------|
| Direct labor cost overcharge | \$44,707 |
| Add: SRE on labor cost overcharge | \$37,482 |
| G&A on labor cost overcharge | <u>\$50,403</u> |
| Total direct labor cost overcharges | <u>\$132,592</u> |

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

Article XII, Fees and Payments, of the Agreement required that the labor cost billed by Consultant / subconsultants should be based on their actual hourly labor rates.

Recommendation

Internal Audit recommends that:

- The Consultant establish a system of internal controls to ensure compliance with the requirements of Part 31 of FAR Part 31 and the Agreement when calculating the G&A rate.
- The Airport Authority pursue cost recovery of \$132,592, for the labor costs overcharges.

Consultant Response

We understand the finding of the audit and will address the amount in the recovery Phase.

Management Response

Airport Engineering concurs with Internal Audit's recommendations.

4. G&A and SRE Overcharges By Subconsultants(\$135,135)

The subconsultants' billed G&A and SRE rates were neither based on the audited rates nor agreed to the allowable costs recorded in their accounting records. We recalculated the G&A and SRE rates based on the allowable expenses recorded in subconsultants' accounting records and in accordance with the requirements of FAR, Part 31. The variances between the billed and the re-calculated G&A and SRE rates resulted in overcharges by the subconsultants of \$135,135 as follows:

| Subconsultant | Cost Category | Billed costs | Recalculated Costs | Overcharges |
|-------------------------|----------------------|---------------------|---------------------------|--------------------|
| Epstein Global | G&A | \$417, 291 | \$340,434 | \$76,857 |
| Kennedy Associates Inc. | G&A | \$286,547 | \$236,442 | \$50,105 |
| Faith Group, LLC | SRE | \$25,630 | \$22,028 | \$3,602 |
| Martinez Geospatial | SRE | \$70,222 | \$65,651 | \$4,571 |
| Total | | \$799,690 | \$664,555 | \$135,135 |

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Recommendation

Internal Audit recommends that:

- The subconsultants establish a system of internal controls to ensure compliance with the requirements of FAR Part 31 and the Agreement when calculating G&A and SRE rates.
- The Airport Authority pursue cost recovery of \$135,135 for G&A and SRE overcharges.

Subconsultants Response

Epstein Global

Epstein Global did not respond to the observation.

Kennedy Associates, Inc.

We will establish a system of internal controls to ensure compliance with the requirements of FAR, Part 31. We also agree to the overcharges in the amount of \$50,105, which were billed in excess of actual incurred cost.

Faith Group

Our billed G&A and SRE rates are based on requirements of FAR, Part 31. The adjustment for an allowable deduction of 50% of the self-employment tax was an oversight in our rate calculations and is duly noted. Faith group shall adjust its calculations of SRE for future projects requiring FAR, Part 31 rates. We accept the overcharge amount and have paid the City the billed excess amount of \$3,602 on September 11, 2015.

Martinez Geospatial

We used an estimated combined G&A and SRE rate. Our actual G&A and SRE rates for 2010 were less than we had estimated. We agree with the calculations of separate G&A and SRE rates and we agree with the overcharges of \$4,571.

Management Response

Airport Engineering concurs with Internal Audit's recommendations.

5. Non Compliance with Local Design Codes and Regulations

We noted that the design drawing submittals by the subconsultant, Epstein Global, did not comply with the St. Louis County Department of Public Works Code Enforcement and Amending Ordinances. As a result, the Airport had to facilitate

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DETAILED OBSERVATIONS AND RECOMMENDATIONS

several meetings between St. Louis County Department of Public Works and the Consultant to resolve the non-compliance.

Article III of the Agreement required the Consultant to comply with most recent and applicable City Codes and Ordinances and State and Federal Laws.

Recommendation

Internal Audit recommends that the subconsultant ensure that they have working knowledge of all applicable work codes and ordinances to minimize delays in established timelines of the projects.

Subconsultant Response

Epstein Global did not respond to the observation.

Management Response

Airport Engineering concurs with Internal Audit's recommendation.